

# CREDIT *notes*



CREDIT  
GUARANTEE

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# INTEGRATED REPORTING DEMYSTIFIED

The Integrated Report is a high level, stand alone report in plain language on the strategy, performance and activities of the organisation, which enables stakeholders to assess the company's overall ability to create and sustain value over the short, medium and long term.

“The report should be seen as an opportunity to tell your story as it is,” says Elanie Heyl, Senior Manager: Sustainability, at Deloitte. “It is a summary of your plan to sustain value, includes financial results on IFRS principles and reflects the interconnections between environmental, social, governance and financial factors.”

Heyl continues, “The Integrated Report is not a Sustainability or Corporate Social Responsibility report; it is also not a combination of the Annual Report and the Sustainability report; nor is it a chapter within The Annual Report.”

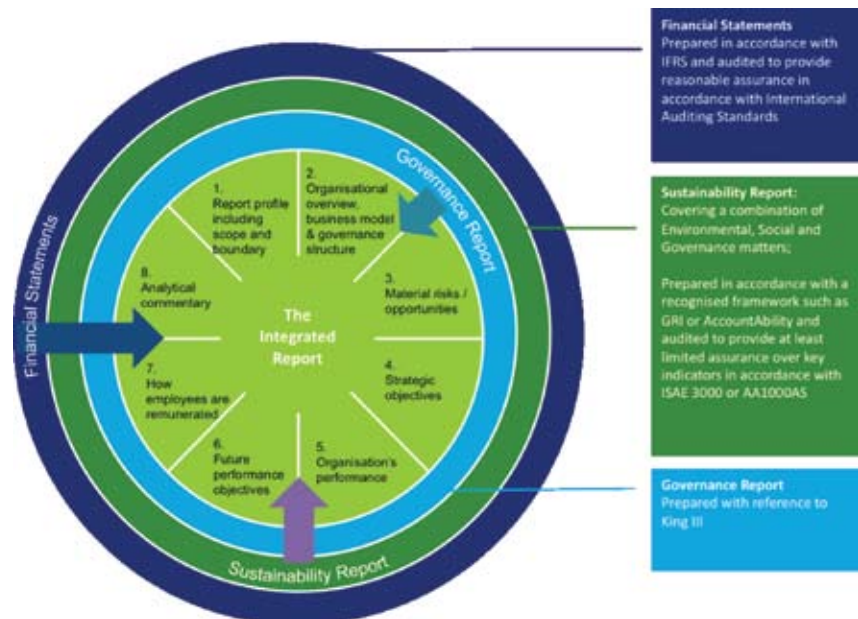
**How does this reporting process benefit the company?**

According to Heyl, it provides a holistic view of the company's overall strategy and performance and enables the organisation to improve its ability to respond successfully to risks and opportunities-including those from social and environmental dimensions such as water shortages, increasing energy prices, carbon tax, etc.

Although there are some challenges to integrated reporting, some guidance has been given by King III and the Global Reporting Initiative (GRI):

- King III (2009) recommends the preparation of an Integrated Report and an annual Sustainability Report in accordance with a recognised framework (e.g. GRI); independent assurance of the sustainability report, with the audit committee overseeing the stakeholder reporting including Integrated and Sustainability reporting; and that the Sustainability Reporting and Disclosure should have independent assurance.
- The Integrated Reporting Discussion Paper issued in January 2011 by The South African Integrated Reporting Committee clarifies the Integrated Reporting requirement and is the first framework available globally.

The Integrated Reporting Discussion Paper issued by the South African Integrated Reporting Committee (IRC) describes the Integrated Report as the organisation's primary report and identifies eight suggested elements to be included. It further states that the Financial Statements and the Sustainability Report need to be drawn upon when preparing the Integrated Report. The proposed structure and content can be illustrated as follows:



Source: Deloitte 2011- Integrated Reporting "Is your message lost in Regulation?"

# THE COLUMN

by *Roger Munitich*

*GM: Marketing and R&D,  
Credit Guarantee*

## BUSINESS RESCUE

There can be little doubt that suppliers' who have opted to credit insure their debtors with Credit Guarantee, will literally be sitting in a far more advantageous position compared to those companies who have not, if and when one of their debtors decide to seek Business Rescue protection!

Not only will a claim be considered after 3 months but in the event that ongoing supplies are required, Credit Guarantee will consider, albeit on a case for case basis, providing 'new' cover.

And to top that, we have a dedicated Division under the auspices of General Manager, Gideon Bochedi, that will be administering our clients' various interests in those companies in Business Rescue, ensuring fair play and hopefully a speedier and positive conclusion! All at no extra cost. Now why risk it without us?

## Reporting

The essential building blocks for the Integrated Report are:

- a sustainability strategy that is integrated in and aligned with the business strategy;
- an effective governance framework that supports the sustainability agenda;
- skilled people with defined roles, responsibilities and KPIs that oversee the related processes;
- IT enablers that assist with recording, consolidating and analysing information; and
- a combined assurance framework that caters for assurance of sustainability information.

Heyl concludes with a quote from the former CEO of Wal-Mart, Lee Scott (2007), "Sustainability is here to stay. It is not a fad, it is not a marketing ploy, it is in fact a part of what all of us are going to be doing with our businesses from here on out."

### Issued on behalf of Deloitte

**Contact:** Elanie Heyl, Senior Manager:  
Sustainability and Integrated Reporting SME  
**Tel No:** 011-209 6548  
**Mobile:** 083-225 0730  
**e-mail:** elaniehey@deloitte.co.za



## Risk is global in an interconnected world

**T**he global economic crisis has reduced global economic resilience and has certainly proved that risk is global and not local. The world has become so interconnected and interdependent that major disasters such as earthquakes, volcanic eruptions and tsunamis on one side of the globe send shock waves around the world and have serious rapid implications for every continent.

“In light of the recent devastation in Japan, a report on global risks presented at the World Economic Forum earlier this year was almost prophetic in its content,” comments Sidesh Maharaj, Director and Risk Advisory Leader at Deloitte in Johannesburg. “The disaster has massive impacts from a human and economic point of view - not only has it heightened concerns around the availability of food and water, it has also resulted in shortages which impact the motor and IT industries in South Africa.”

The political instability in the Middle East not only affects the countries in that region, it is impacting local commodity prices, the gold price and the availability and price of oil. “In South Africa, we have had two petrol price increases in the space of two weeks,” continues Maharaj. “So it is not just business risks which become crucial, there are societal risks which, in turn, lead to political

risk and create instability. We need to realise that the risks are integrated; that risk is not just a boardroom issue, it affects every aspect of our lives.”

Demand for water, food and energy is expected to rise by 30-50% in the next two decades, while economic disparities prompt short-term responses in production and consumption which undermine sustainability in the long term. Shortages could cause social and political instability, geopolitical conflict and irreparable environmental damage. Strategy and risk are not separate considerations and any strategy that focuses on one element of risk without considering its interconnections, could have serious unintended consequences.

“We are good at identifying risks but not so good at mitigating and realising value by exploiting risks. Effective risk management is not only about proactively reducing the downsides associated with the risks, it is also about seizing the opportunities for innovation and growth that may arise,” concludes Maharaj.

**Issued on behalf of Deloitte**

**Contact:** Sidesh Maharaj, Director Risk Advisory,

**Tel No:** 011 806 5247 **Mobile:** 083 297 4777

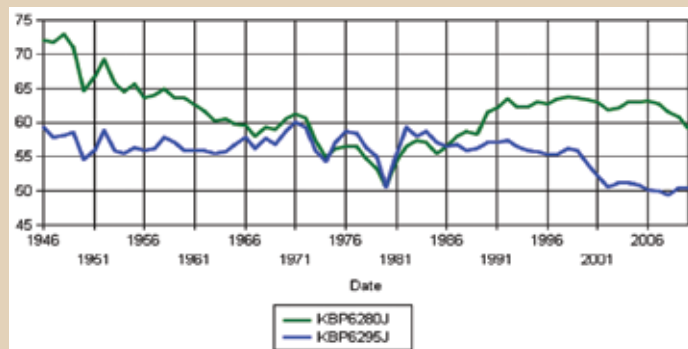
**e-mail:** simaharaj@deloitte.co.za

# CONSUMER SPENDING – STATUS OF THE RETAIL ENVIRONMENT

The financial health of consumers and their ability to spend plays a vital role in the overall health of the economy, with Final Consumption Expenditure by Households (FCEH) accounting for around 60% of GDP. Inflation, employment, debt obligations, tax burdens and consumer trends all impact on the entire manufacturing-wholesaling-retailing chain. The financial meltdown and subsequent recession in 2008/9 saw FCEH contract by 2% in 2009 after a robust 5.5% expansion was experienced in 2007. A recovery in consumer spend of 4.4% last year was not sufficient to prevent FCEH to GDP dropping below 60% for the first time since 1989's 58.3% (refer to the green line in the graph below).

	FCEH - % change	FCEH: GDP (%)	Employee compensation: GDP (%)
2007	5.5	62.7	50.0
2008	2.2	61.5	49.5
2009	-2.0	60.8	50.5
2010	4.4	59.2	50.5

Source: SARB



Indeed the declining share of employee compensation to GDP (blue line) is also apparent from the graph above, with a level above 55% dominating the period 1946 to 1999. Is the structural shift to 50% that has taken place over the last decade a reflection of greater capital utilisation in the face of increasingly complex labour laws, or a function of greater competitiveness forcing firms to trim costs, including salaries? Note that a 1% fall in the respective ratios to GDP implies a cut of some R26bn.

Total employment stood at 14.027m people in Q4'08 before plunging to a low of 12.975m in Q3'10 and then recovering slightly to 13.118m in Q1'11. This loss of almost 1m jobs represents a massive drain in disposable income. Similarly, the uptick in the official unemployment rate to 25% in Q1'11 from 24% in Q4'10 (and from 36.4% in Q4'10 to 37.6% in Q1'11 in respect of the wider definition including discouraged workers) indicates the severity of the situation.

The retail boom of 2004 – 2007 (average per annum growth in real retail sales of 9.5%) was due largely to disposable income of households rising by 6.1% p.a. over the period. At the same time, household debt to disposable income of households grew from 54.5% in 2003 to 81.8% in 2008 with debt servicing costs ultimately strangling consumer spend.

The recovery in FCEH to a rate of 4.4% last year was aided by a real 4.5% improvement in disposable incomes of households following a contraction of 1.5% experienced in 2009. Further, as inflation fell progressively from a rate 11.5% in 2008 to 7.2% in 2009 and to 4.3% in 2010, so prime fell from a peak of 15.5% in June 2008 to 9% in November 2010. As a consequence, debt servicing costs to disposable income fell from 12.4% in 2008 to a level of 7.7% last year (with debt levels declining to 78.2%). We postulated that this would boost Christmas sales above market expectations and now wonder whether it may provide a buffer to the challenges facing consumers?

In fact debt servicing costs are even lower currently and we expect this to bottom at 7% to disposable income this year. This in turn has seen Q1'11 retail sales advance 5.6% in real terms compared to the first quarter of last year. The problem that

consumers are going to face as the year progresses is that rising inflation will see higher interest rates into 2012, especially considering the persistently high debt levels mentioned above.

The table below shows the performance of the various retailers as compared to the overall 5.2% real increase in retail sales in 2010:

	2010 y-o-y	Q1'11 q-o-q
General dealers	4.5%	5.4%
Retailers of food, beverages & tobacco in specialized stores	1.4%	-4.3%
Retailers in pharmaceutical & medical goods, cosmetics and toiletries	11.1%	-11.2%
Retailers in textiles, clothing, footwear & leather goods	8.1%	5.0%
Retailers in household furniture, appliances & equipment	15.2%	10.5%
Retailers in hardware, paint & glass	-3.3%	12.9%
All other retailers	2.4%	6.2%

Source: Statistics SA

Durable and semi-durable goods retailers have seen sustained growth in Q1'11 over the same period last year, as evidenced by strong vehicle sales. There is however concern that the 5.6% real rise in Q1'11 retail sales may run out of steam in the face of rapidly escalating administered prices such as fuel and electricity.

Electricity price hikes of 27%, 31%, 25% and 25% over 2008-11 with more to follow are hitting South African industry and households alike with soaring fuel prices exacerbating the pressure. Gauteng petrol prices have risen from R6.01/l in January 2009 to a current price of R10-25/l while diesel prices for the first 5 months of 2011 are already some 19% above 2010's average price – which in turn were 11% above 2008's average of R6.65c/l. With regards to the mooted tolls for the Gauteng Freeway Improvement Project, the Automobile Associations estimates that Gauteng road users will pay a collective R300m per month more.

The exponential growth in the durable goods spend last year was due in part to increased sales around the World Cup and due to greater affordability arising from lower debt servicing costs. Furthermore, the strong exchange rate saw retail inflation kept to a minimum. This may allow for further relatively strong growth in discretionary/luxury goods and services spend while non-durable spend, which took a hammering in the recession, should begin to exhibit stronger growth. Credit Guarantee's forecast for FCEH is lower at 3.7% and 3.8% in 2011 and 2012 respectively than the BER forecast below and would welcome any outcome above that.

Final household consumption expenditure: sectoral breakdown, real annual % change

	Actual	Forecast	
	2010	2011	2012
Durable goods (mainly vehicles, furniture & household appliances)	24.2	10.3	6.4
Semi-durable goods (mainly clothing & footwear, household textiles and vehicle spares)	6.5	4.8	6.3
Non-durable goods (mainly food & beverages, household consumer goods, fuel, power and water)	2.1	2.4	4.1
Services (mainly rent, domestic services, medical services, transport and communication services)	1.9	4.4	3.8
TOTAL FCEH	4.4	4.3	4.5

Source: BER

Luke Doig, Senior Economist, 19 May 2011

# KWAZULU-NATAL

## Profile

KwaZulu-Natal is called the garden province and is the home of the Zulu nation. The province boasts with two world heritage sites: the iSimangaliso Wetland Park and the uKhahlamba Drakensberg Park.

KwaZulu-Natal is the second largest economy in the country, contributing around 16.5% towards SA's GDP. The total population is estimated at 10.6m. It has the highest export propensity and the highest level of industrialisation in SA, with manufacturing making the biggest contribution to the province's economic growth. Growth in this sector is mainly driven by the paper and paper products industry, ferroalloys (such as aluminium) and other chemicals. Further significant subsectors include motor vehicles and component manufacture, printing and publishing and food and beverage production.

KwaZulu-Natal is recognized as an industrial development hub in sub-Saharan Africa which can be attributed to the province's natural resource endowments, exceptional productive capacity, well-developed infrastructure and its strategic coastal location. Economic activity is concentrated in the metropolitan areas of Durban, Pietermaritzburg and Richards Bay, with the coastal areas utilised for sugar cane plantations and subtropical fruit and vegetables. The Richards Bay and Durban ports provide a key competitive advantage and enable the province to provide a gateway to the global market.

## Major towns and cities

KwaZulu-Natal is divided into 11 districts of which the eThekweni Municipality (which includes Durban) is a metropolitan municipality and the other ten are district municipalities.

The eThekweni Municipality is known for its extensive trade in medicinal plant products with a total trade value per annum of R21m if traded as raw unprocessed products and an additional R152m if value add takes place. It is estimated that some 13 950 income-generating opportunities are provided by the medicinal plants trade in eThekweni.

The Amajuba District Municipality has a total population of 468k people and is situated within the north western corner of the province. The northern and western mountainous edges of the district are regarded as popular tourist destinations.

Umkhanyakude District Municipality is situated in the north-eastern region of the province and is home to the Big Five and offers memorable year-round tourism experiences. This district is mostly rural but is well located to benefit from South African-Mozambique business relations. The key drivers of economic growth include: agriculture, services, tourism and retail.

The uMgungundlovu District Municipality has a total population of 920k with a combination of traditional farmland communities, informal rural settlements and up-market urban areas. The region has a rich and complex natural environment with numerous resources, accounting for 13.5% of KwaZulu-Natal's gross geographical product and 14.5% of the province's formal employment.

The main features of the Ugu District Municipality economy are tourism and agriculture. The tourism industry is based on the sea and associated activities including fishing as a popular sport for locals and visitors. The Ugu municipality also has a number of highly acclaimed Blue Flag beaches. The commercial agriculture sector in this district produces

one-fifth of all bananas consumed in SA as well as vegetables, sugarcane, tea, coffee and macadamia nuts. A number of these businesses are exporting these goods to the most exclusive packers in the United Kingdom.

Sisonke District Municipality is well endowed with natural resources with the key economic sectors being agriculture and tourism. The district is well known for its high agro-ecological potential due to an abundance of high quality soils, high altitude and abundant water. The district produces 10% of the milk consumed in SA and 35% of Clover milk is from this area. Tourism activities include eco-tourism and adventure tourism activities including horse riding, mountain biking, river rafting and canoeing.

uMzinyathi District Municipality includes some of the poorest and most underdeveloped rural areas of KwaZulu-Natal with primary agriculture based on cattle ranching for beef, small scale sheep and mixed farming and maize cultivation forming an important part of the district's economy.

uThukela District Municipality is endowed with natural resources with the key economic sectors being agriculture (dominated by forestry, plantations and livestock production), manufacturing (textile, clothing, footwear and leather industries), tourism (with the Drakensberg Park World Heritage Site attracting half a million tourists annually) and the freight and logistics sectors that are growing in importance.

The uThungulu District Municipality has the third largest population in the province and stretches from the agricultural town of Gingindlovu in the south to the uMfolozi River in the north and inland to the mountainous beauty of rural Nkandla.

The Zululand District Municipality has abundant forests and an unhurried lifestyle with an important coal-line corridor running through the district from Gauteng/Mpumalanga to the port at Richards Bay.

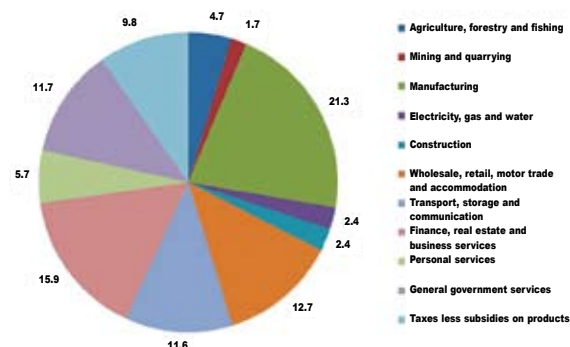
iLembe District Municipality is situated about 65km north of Durban and is set to become a major economic hub in the province. The King Shaka International Airport and Dube Trade Port plays a key role in the district as these developments are creating vast opportunities for economic growth and development.

## Overview of the economy

The manufacturing, transport and business service sectors are key role-players in KwaZulu-Natal's economy. KwaZulu-Natal's gross domestic product per region (GDPR) has grown steadily from 1996 to 2009, peaking at 5.8% in 2005 and 5.9% in 2007, before sliding moderately in 2009. The province has consistently grown faster than the national economy since 2000 at 4.4% per annum and boasting an estimated real GDPR of R252bn per annum.

### KwaZulu-Natal economy by sector (% contribution), average 2000-2009:

Source: Trade and Investment KZN



The figure above provides the average contribution of each sector of the province between 2000 and 2009. The figure shows that manufacturing (21%), finance, real estate and business services (16%), trade and tourism (13%), and government services (12%) are the four most important contributors to the provincial economy.

The ports of Durban and Richards Bay handle about 80% of South Africa's cargo. Kwazulu-Natal is the country's leading timber producer, processing over half of all timber used in the country and accounts for a significant percentage of the country's wood exports. The province produces more than 4% of the world's aluminum exports in Richards Bay and is reported to have massive potential as a tourism destination with its largely untapped environmental resources and bio-diversity.

As a result of the global economic crisis, growth in KwaZulu-Natal declined by 2.2% in 2009, severely affecting employment levels. The province did however manage to overtake the Western Cape as the second largest regional economy in South Africa after Gauteng. The labour market remained subdued in 2010 with the number of unemployed people increasing from 588k in Q3'10 to 601k in Q4'10. The Provincial Treasury does however expect a positive growth rate of between 3% and 3.5% for the province in 2011.

The 2011/12 budget will primarily focus on: creating decent work and attempting to boost economic growth. The provincial government allocated R72m to external bursaries in the 2011/12 budget to increase the skills and employability of particularly newly matriculated youth. The largest portion of the budget was allocated to education with a real increase of 1.3% from R29.57bn in 2010/11 to R32.61bn in 2011/12. This was followed by the second largest allocation to health and transport with R24.4bn and R6.57bn respectively. The province increased its infrastructure budget allocation for 2011/12 to R11.75bn from R11.17bn. The largest portion is allocated to transport for road construction and maintenance, followed by housing delivery, education and health. Infrastructure allocations will also be made to further develop the Dube Trade Port and the Richards Bay industrial development zone. The provincial government budgeted for a surplus of R1.8bn in 2011/12 and a surplus of R2.3bn in 2013/14. The surplus will be partly used to provide a cushion in cases of unforeseen fiscal shocks.

The 2011 Kwazulu-Natal barometer showed an overall growth of 14.1%, the strongest year-on-year growth since the barometer was created. This was mainly the result of strong government expenditure with the financial, property and business services sector making the second biggest contribution to the province's economy. It also indicated that although the province's trade index increased by 8.1% year-on-year in March 2011 although consumers are still showing a cautious spending approach. The Kwazulu-Natal stress index, an indication of the pressure by experienced by business people, did however decline for the seventh successive month and was 1.3% lower in March 2011 than in March 2010.

The province's new low cost airline, Velvet Sky is based in Durban and commenced operations in mid-March 2011 offering flights between Durban, Johannesburg and Cape Town. The provincial government recently signed a deal with Comair (which operates Kulula and flies in SA for British Airways under a partnership agreement) to allow the airline to fly between King Shaka International Airport and London, the airline's first attempt at long-haul international flights. This is expected to boost KwaZulu-Natal's tourism sector and economic growth. Dube Trade Port

(which is owned by the province) is also planning to build a R130m aircraft maintenance facility at the airport in an attempt to stimulate the establishing of other aeronautical services businesses. The construction of the Dube Trade Port (DTP), a 16 hectare greenhouse agri-zone is still underway and is expected to produce over 3k tons of airfreight once fully operational. The target for 2011/12 is the export of 15,300 tons of produce through the cargo terminal, creating 500 permanent jobs and the generation of R100m in private sector investment. The Dube Trade Port created an estimated 37,367 jobs directly and indirectly during the construction period. The King Shaka International airport has processed more than 4.5m passengers since opening and this is expected to grow by 7.5% in 2011.

The provincial government identified the following sectors as priority areas to increase growth and reduce unemployment and poverty in the province:

- Agriculture including agri-industry with opportunities to impact considerably on the economic needs of the poor through land reform.
- Secondary industry and manufacturing
- Tourism (domestic and foreign)
- Services sector including financial, social, transport, retail and government

## Sectoral Breakdown

Due to the good reliable rainfall and fertile soils, the region's agricultural sector has become very productive and diverse. The province has a total of 6.5m hectares of land for farming purposes of which 82% is suitable for extensive livestock production and 18% is arable land. The sugar cane growing areas of South Africa namely, KwaZulu-Natal, Mpumalanga and the Eastern Cape, generate an income from the sale of sugar and molasses of over R4.2bn per annum. The sugar industry is an important provider of jobs as well as the cornerstone of business development in such areas.

KwaZulu-Natal's diversified manufacturing sector is the biggest contributor to the province's gross geographic product. Nearly a third of South Africa's manufactured exports originate in KwaZulu-Natal. The largest manufacturing industries are the automobile and component sector, pulp and paper products, chemicals and petrochemicals and food and beverages. More than 50 major automotive component suppliers including Toyota, MAN truck and bus SA, Volvo Trucks and Bell Equipment operate in KwaZulu-Natal. The province also have one of the largest and busiest ship repair facility in SA and one of the most efficient in the Southern Hemisphere.

KwaZulu-Natal is the market leader for domestic tourism in SA and second in terms of international tourism (after the Western Cape). The province has two world heritage sites that include the Isimangaliso Wetland Park and the Ukhahlamba Drakensberg Park. Durban has also been listed as one of the top ten family beach holiday cities in the world with the Durban International Convention Centre rated the best conference centre in Africa.

KwaZulu-Natal's services sector is the fastest growing sector in the province as these services are considered critical in supporting the performance of businesses. These include sub sectors such as finance, real estate and wholesale and retail trade. A number of sectors within the services sector have been identified for investment purposes, namely transport and logistics, multimedia, call centres and ICT.

**Compiled by Monique Daseman – Economic Services**

# FEDERATIVE REPUBLIC OF POLAND

*Castle of Teutonic Knights, Malbork, Pomerania in Poland*

*Night life in Poland*

## Political environment

President Bronislaw Komorowski, the speaker of parliament, became acting president after the death of President Lech Kaczynski in a plane crash in April 2010. He defeated Mr Kaczynski's twin brother and former prime minister, Jaroslaw, in the second round of the presidential election. A leading figure in the centre-right Civic Platform party, Mr Komorowski has served in several post-Communist governments since 1989, including a term as defense minister in 2000-2001.

Political parties are divided as to the wisdom of holding elections in October this year, right in the middle of Poland's presidency of the European Council. The ruling Civic Platform wants elections after the start of the presidency while the largest opposition party called for elections early next year. President Komorowski has yet to make the final decision as to the date of the elections. The head of the European Commission underlined that he sees the half-year presidency as a great chance for Poland: "It will be a great occasion for Poland to bring its sensitivity to European affairs and to deepen the debate about European issues."

## Economic environment

Domestic demand was the key driver of Poland's economic growth for the full year 2010. The country's gross domestic product increased by 3.8% last year, more than the government had estimated and more than experts had forecast. The country's economy grew faster than in 2009 (1.7%), mainly due to Poles' zeal for shopping. Individual consumption expenditure increased last year by 3.2% and proved to be the economy's driving force. Economists point out that high consumption, especially in the 4Q of 2010, was a reaction to both the VAT increase that was introduced on January 1, 2011 as well as to the withdrawal of a tax deduction on passenger cars. In the 1Q 2011, economists expect a slow down of individual consumption to 3.3% y-o-y.

Only three EU countries are projected to achieve faster GDP growth than Poland this year (Estonia, Lithuania and Sweden) and five in 2012 (Estonia, Latvia, Lithuania, Luxembourg and Slovakia). The Commission expects economic growth in Poland to accelerate to 4% this year, helped by a recovery in private investment, before easing back to 3.7% in 2012, due to weaker growth of consumption and public investment. Economic recovery in Poland will moderate somewhat in 2012 and despite substantial progress in deficit reduction; the country will fail to bring its general government deficit below 3% of GDP by the end of next year. Brussels also revised upwards its estimate of inflation in Poland in 2011 and 2012.

Since 1989 the Polish economy has done well, but there are worrying divisions between rich and poor, town and country. The country has

higher levels of child poverty than the US and twice the UK level and the country has a gap in life expectancy of 15 years between Warsaw's richest and poorest districts. The trade union Solidarity recently organised nationwide protests at the failure of the centre-right government "in its constitutional duty to protect the poorest people sufficiently well".

The big political issue this spring is pensions and a similar crisis is brewing in the healthcare sector. Donald Tusk, the prime minister, is diverting part of the population's pension fund from the statutory contribution citizens pay, moving it into the state insurance scheme to ease pressure on the public accounts. This sleight of hand is designed to cut the budget deficit and to keep national debt below the legal limit of 55% of GDP. Poland's pension costs, at 11.4% of GDP, are huge: the UK figure is 5.7%. Part of the problem is early retirement – only a third of Poles over 50 are still in work. Pressure can only grow as Poland ages, in common with the rest of Europe.

Poland's GDP will likely grow 3.8% in 2011 and by 3.6% in 2012, according to the IMF's European Department. Currently the IMF forecasts Poland's average inflation at 4.1% in 2011, 2.9% in 2012 and 2.5% in 2016 compared to last year's 2.6%. The Fund forecasts Poland's unemployment rate at 9% this year (unchanged from 2010) and at 8.7% in 2012.

Poland has submitted to the European Commission a list of economic reform commitments undertaken as a result of its decision to join the "Euro-Plus Pact". The pact was created in March by euro zone members led by France and Germany and open to all other Member States. The purpose of the pact is to achieve greater coordination of economic policies in order to better promote competitiveness, employment and fiscal strength. Each year its members are to agree on a set of concrete actions to be achieved within 12 months.

## Main economic sectors

### Services

This year, Poland's tourism industry as a whole is expected to see its revenues rise by \$73 million. This is mainly due to the fact that many Poles are deciding not to go abroad on vacation. An increase in foreign visitors is also expected. About 6% of reservations are made by foreigners and over 12 million foreign tourists visited Poland last year. Germans and Russians have in the past preferred to holiday in North African countries but this year they are most likely to choose Poland instead due to the continuing unrest in the region.

Poland is perceived by the world's retailers as the second most attractive market to expand in the Europe, Middle East and Africa (EMEA) region



### Christmas Tarnow, Poland

in 2011, only behind Germany, according to an annual survey by CB Richard Ellis, the commercial real estate advisers. This is up from fourth last year. Poland stands out in the region not only in terms of the strength of its economy but also because of its relatively limited supply of top quality retail space. It is the latter factor that poses the main downside risk for the planned expansion of global retailers in Poland. Although the supply of retail space in Poland is expected to increase in 2011, property developers' plans for the construction of new shopping-centre space are limited, which could force retailers to reconsider or scale back their growth plans.

Favourable developments in the economy have been reflected in the solid performance of the banking sector. Bank deposits increased by 9% y-o-y, driven by both retail and corporate savings and a similar growth in lending volumes was primarily driven by new lending in the household sector. Slightly increasing market interest rates helped banks to improve margins with net interest income increasing by 19%. On the cost side, banks were able to reduce risk costs (net reserves) by 10% and allowed only a slight 3% increase in operating costs, including personnel expenses. As a result, the 2010 pre-tax result of banks jumped by 45% y-o-y to \$4.9 billion.

#### Agriculture

Agriculture is one of the sectors that profited the most from the Polish accession to the EU. About 15% of the country's labour force (2.2 million workers), is employed in farming. Most Polish farms (over 90%) are operated by the farm holders and their families. Agricultural land constitutes over half of the total area of the state. Among the EU-27 countries, Poland is the third largest producer of cereals - leading in rye and oats production and second largest in potato production. Poland has the largest apple tree orchard in the EU-27. According to Eurostat - Polish farmers have experienced a significant rise in real incomes during 2000-2009, increasing by 107% compared to the EU-27 average of just 5% and the average of the new member states (EU-12) of 61%. Last year the farmers' incomes decreased, mainly due to the plunge in prices of most animal products and almost all plant products.

Poland implemented the Rural Development Programme 2007-2013 (RDP) with a total budget of €17 billion. Poland's RDP is based on the multifunctionality of agriculture and rural areas. The aims of RDP in Poland are: strengthening of the economic competitiveness of agricultural holdings and of the agri-food sector, contributing to land management and environmental protection, and enhancing the quality of life and diversify the agricultural economy.

The planned refocusing of the EU budget architecture may significantly decrease the level of EU financial assistance provided to farmers, which will certainly not yield positive effects on Polish agriculture. Thus Poland might lose part of the €10 billion of annual support it receives in the area that employs almost one-seventh of its work force and is still structurally underdeveloped. The change of structural funds infrastructure is to be accompanied by reduced individual subsidies for farmers that constitute the second biggest source of EU aid for Poland.

#### Transport

Poland's economy is very dependent on the road and rail network. In addition, recent economic growth contributed to strong demand for mobility, adding to pressure on land transportation. Sustainability cannot be addressed by focusing on a single mode. For example, allocation of financial resources between modes or railway competitiveness can contribute significantly to the sector's financial sustainability. Moreover, Poland will likely continue to benefit from significant EU financial support, but the future level may decrease with increased economic convergence and EU plans to extend membership to other countries in the region. These changes may require additional institutional reforms that would best take place now to adapt and ensure the sector's overall sustainability and efficiency.

In Poland sustainability would require improving significantly the competitiveness of the railway sector. A competitive railway would relieve the road network from part of its traffic, especially heavy and long-distance freight, thus reducing road sector maintenance needs and upgrading requirements. A competitive railway would also support the development of multimodal transport, further increasing the competitiveness of the whole land transport sector. By reducing road traffic, it would have a positive impact on GHG emission beyond what can be achieved by improving vehicle efficiency alone.

Following a year in which BMI believes saw the recovery begin, 2011 will signal further growth and in some freight modes a return to pre-downturn levels. Total trade is projected to increase 8.5% in 2011 following estimated growth of 5.9% in 2010. Road freight is to continue to dominate the sector and is projected to grow by 7% in 2011. The sector defied the downturn and so far appears to have defied European Union (EU) pledges of a decrease in road haulage across the region that is not to say, however, that road freight's market share is safe. BMI notes that rail is the likeliest candidate in Poland's freight transport mix to benefit from any diversification away from road.

#### Headline Industry Data:

- 2011 Air freight tonnage is expected to grow by 9.6%
- 2011 Rail freight is forecast to grow by 6.5%
- 2011 Port of Gdansk throughput is forecast to grow by 6.3%
- 2011 Road freight is forecast to grow by 7%
- 2011 Total real trade growth is forecast to grow by 8.5%.

#### Mining

As the country's economic growth accelerates to over 4%, BMI expects Poland's mining industry to achieve real y-o-y growth of 4.6% to \$10.92 billion in 2011. However the sector's growth will dip in 2012, along with the economy, to 3.9% or \$11.67 billion. BMI expects growth to remain marginally above the 4% y-o-y mark through to 2015. Hard coal production is in chronic decline in Poland on the back of depletion but also because of the government's pressure to find alternatives to the country's ever-present coal-fired plants. Power generation from coal continues to make up 94% of Poland's energy mix and the government aims to reduce this to 60% by

2030. Among the many factors that will affect the success of the plan is the government's aim to introduce nuclear power to generate 9.3% of the country's electricity needs by 2030.

The European Commission's softening position on state subsidies to coal mines since late 2010 came as a boon for Polish coal miners, some of which operate economically unfeasible mines. Under strong German pressure, the commission said in December 2010 that it may be open to the continuation of subsidies until 2018 on the condition that state support declines y-o-y. Although the proposed rules still demand that operating subsidies by 2017 ought to be a mere fraction of their size in 2011, the stance is considerably more lenient than original proposals that called for a limit to all subsidies for mines expected to close by mid-October 2014.

BMI expects copper production in Poland to continue the y-o-y decline that began in 2005, reaching 412 million tonnes in 2011, down from 424 million tonnes in the previous year. The country's copper output is expected to fall to 363 million tonnes by the end of 2015. Nickel is one of the metals that BMI does not expect to decline. Nickel production will reach 0.59 million tonnes in 2011, up from 0.52 million tonnes in 2010.

## Construction

Poland's construction industry has outperformed the Europe region as a whole over the past five years, with average industry growth of 8.9% per year between 2005 and 2009, compared to 3.8% for Europe. In 2009 when Europe's construction industry experienced deep a recession, Poland experienced a spike in growth. According to recently revised data, 9.9% industry growth was reported for the year, making it not just a regional, but a global outperformer.

Key growth drivers have been:

- Euro Cup 2012 preparations: this has catalysed planned investment into the transport sector, specifically in airports, roads and railways. In addition, construction of stadia, hotels and related tourism infrastructure has buoyed the residential and non-residential building subsector.
- Road building programme: Poland's road building programme, running from 2007 to 2015, is expected to lead to \$60 billion worth of investments into the sector. The programme has been a blessing for Poland's largest builders over the past 24 months, who have faced depleted contract opportunities in other core European markets.
- EU Cohesion funds: The EU has allotted substantial funding for Poland's infrastructure sector in an effort to integrate the country into the EU's transport and energy networks. Geographically placed between Eastern and Western Europe, it is hoped Poland will act as a bridge between the two.

## Current economic developments

In the area of economic competitiveness, the government aims to prioritise investments in Research and Development and transport infrastructure. The former include the implementation of new financing and institutional arrangements in scientific research and higher education; the latter involve road, rail, energy and IT infrastructure projects. There are also plans for a further relaxation of business laws and new forms of financing support for SMEs. The government has also committed to a wage freeze in the public sector, with the exception of teachers and researchers. In the area of employment, the government among other things vowed to maintain mandatory disability-insurance contributions at the reduced level. And in the area of fiscal policy, it reiterated its commitment to a new spending rule that caps increases in spending at 1% in real terms.



*Wang Temple, Poland*

Even though the situation in Poland has improved, there is still room for improvement. Restraints related to areas such as legal and infrastructural surroundings hamper investors' positive attitude. Among the most important legislative barriers, investors mention the complicity of procedures, unclear interpretations of existing regulations, lack of transparency and the dilution of responsibility for decisions about matters regarding the business sector. This opinion is not isolated. A well-known report conducted by The World Bank, Doing Business, which provides objective measures of business regulations and their enforcement across 183 economies, indicates additional constraints. In two most important matters for foreign investors – starting a business and fiscal charges – Poland did not perform well. 113th and 121st positions respectively out of 183 countries do not incline to contentment as Poland lost out with less developed African and Asian countries. Fortunately, foreign business can seek guidance in services offered by law offices that will assist during any formal procedures.

## The Euro Cup 2012

Poland's preparation for the tournament has been taking place for three years now. This applies to both the infrastructure and organisational areas. This year 173 institutions are involved in the preparations for the Euro 2012. Currently 82% of the infrastructure-related projects such as stadia, airports, train stations and selected road and rail connections both in host cities and between them have been carried out according to the schedule, or at minimum risk.

## International trade

- SA exports to Poland in 2009 totaled R2.3bn, in 2010 totaled R1.8bn and year to February 2011 totaled R386m.
- SA imports from Poland in 2009 totaled R3bn, in 2010 totaled R3.6bn and year to February 2011 totaled R535m.

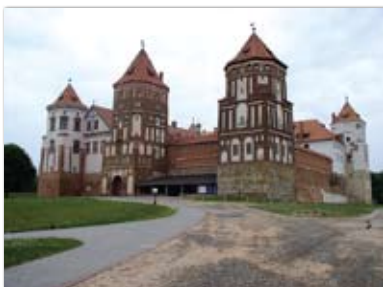
*Researched and compiled by Hlolohele Pule, economic services – Credit Guarantee Insurance*

# Credit Guarantee's guide to Eastern Europe – May 2011

Researched and Compiled by Monique Daseman, Credit Guarantee, Economic Services

Notes: Cover = Credit Guarantee Cover. Y = cover available. CBC = Case by Case. N = no cover available under normal circumstances or if there is no request for cover. S.C. = Special Conditions; ILC = Irrevocable Letter of Credit, CILC = Confirmed Irrevocable Letter of Credit. All medium-term transfers will be individually underwritten based on the specific nature and structure of the transaction.

**COUNTRY - Belarus | GOVERNMENT TYPE - Republic (unofficially recognized as a dictatorship) | POPULATION - 9.5m | 2011 POPULATION GROWTH RATE - -0.4%**



Belarus is a centrally controlled, politically unstable economy. Ranking 130th out of 167 countries in the Economist Intelligence Unit's 2010 democracy index, Belarus is among the 44 countries considered authoritarian regimes. The US and EU are threatening to expand sanctions against the regime of President Lukashenka after a Belarusian court sentenced one of the president's main political opponents to five years in prison and his wife to two years probation following their involvement in a rally in December 2010 against President Lukashenka's re-election for a fourth term. A further increase in restrictions could have a detrimental effect on the economy. It is estimated that Russia's unexpected decline to back a \$3bn bailout for Belarus in May 2011 led to a decline in the value of the ruble adding to the massive inflationary increases and causing hundreds of business closures around the country. In March 2011, Russia announced that it will invest more than \$9bn in a Belarus plant to build a Russian-designed nuclear power plant with the first reactor expected to come online in 2016. Russia defended the project and stated that the nuclear reactor is the latest technology whereas the failing American-built Japanese units are 40 years old. GDP grew 7.6% in 2010 supported by strong growth in exports. The EIU expects GDP growth to slow to 6.5% in 2011 and 5.5% in 2012, as policy is tightened to rein in external imbalances.

**SHORT-TERM COVER - N**

**COUNTRY - Bulgaria | GOVERNMENT TYPE - Parliamentary democracy | POPULATION - 7m | 2011 POPULATION GROWTH RATE - -0.8%**



Bulgaria recorded modest growth of 0.3% in 2010 mainly due to strong growth in exports that includes: clothing, footwear, iron and steel, machinery and equipment and fuels. Corruption, a weak judiciary and organised crime are some of the challenges facing the economy. The EIU considers the government as inconsistent in its policy implementation referring to the u-turn on plans to increase value-added tax by 3-4% as another instance where the ruling party has failed to decide on policies before they are made public. A survey conducted in 2010 revealed that less than half of the population believed that the police were competent and only 19% thought that the Bulgarian judicial system had any credibility with little trust in state institutions. The confederation of Employers and Industrialists in Bulgaria expect the number of bankruptcies to increase in 2011 especially in the construction sector. A reduction in government spending is expected as the government aims to reduce the budget deficit to 3% of GDP from 3.9% of GDP in 2010. The IMF expects economic growth to reach 3% in 2011.

**SHORT-TERM COVER - CBC**

**COUNTRY - Czech Republic | GOVERNMENT TYPE - Parliamentary democracy | POPULATION - 10.1m | 2011 POPULATION GROWTH RATE - -0.1%**



Czech Republic is a small, open, export driven economy, dependent on demand from its main export markets especially Germany. The economy is heavily reliant on its auto industry accounting for an estimated 20% of Czech manufacturing. The country produced more than a million cars for the first time in 2010 and exported more than 80%. Long term challenges facing the economy include: corruption, an ageing population, funding of an unsustainable pension and health care system and diversifying from manufacturing to a more high-tech, services-based economy. The EIU stated that early elections cannot be ruled out due to the increased tension within the coalition government and a string of corruption scandals eroding support for the government. The country's public finances remains vulnerable to the impact of the country's ageing population. The business and consumer composite indicators showed a decline in January 2011 as demand for goods and services declined. Azerbaijan and the Czech Republic are in talks on the joint assembly and sale of advanced light combat aircraft. The Czech economy is expected to benefit from the recovery of its trading partners particularly Germany. The coalition government aims to reduce the budget deficit from 5.9% of GDP in 2009 to zero by 2016. This led to the government announcing a pension reform proposal in February 2011 that will allow workers to redirect a portion of their mandatory social insurance contributions from the state-run pay-as-you-go (PAYG) system to individual private pension accounts. A deficit of 4.6% of GDP is targeted for 2011. The EIU expects the fiscal austerity measures to reduce growth in 2011 to 2% from 2.3% in 2010.

**SHORT-TERM COVER - Y**

**COUNTRY - Hungary | GOVERNMENT TYPE - Parliamentary democracy | POPULATION - 9.9m | 2011 POPULATION GROWTH RATE - -0.2%**



Hungary is a landlocked country with a relatively high per capita income. The private sector accounts for more than 80% of GDP. The government's socialist nature is a cause of concern for some foreign investors. Real GDP increased from -6.3% in 2009 to 0.8% in 2010 supported by growth in exports mostly to the Eurozone which absorbs around 60% of the country's exports. The main export commodities include: cars, electronics and machinery. The government aims to reduce the budget deficit from 3.2% in 2010 to less than 3% in 2011. In May 2011 Fitch Ratings downgraded Hungary's long term foreign currency issuer default rating from BBB to a BBB- with a negative outlook citing a worsening in the medium term budget position with the country's high levels of external and domestic foreign currency bank debt making it vulnerable to negative shocks. The agency views the government's Structural Reform Programme 2011-2014 as a means to address the structural budget deficit. Hungary's export sector continues to benefit indirectly from Germany's expanding exports to Asia. Germany accounts for around 25% of Hungary's total exports, largely due to imports of intermediate goods. Roubini Global Economics expects this strong growth recorded in the export sector to continue in 2011 with real GDP growth expected to reach 2.8%.

**SHORT-TERM COVER - Y**

**COUNTRY - Moldova | GOVERNMENT TYPE - Republic | POPULATION - 4.3m | 2011 POPULATION GROWTH RATE - -0.07%**



Despite the recent progress, Moldova remains one of the poorest countries in Europe. The economy is heavily reliant on agriculture including fruits, vegetables, wine and tobacco. The country imports all of its energy needs mostly from Russia. Despite the 6.5% real GDP growth recorded in 2010, the economy remains vulnerable to political uncertainty, weak administrative capacity, vested bureaucratic interests, high fuel prices, poor agricultural weather conditions as well as the presence of an illegal separatist regime in Moldova's Transnistria region. The Alliance for European Intergration (AEI) coalition government was re-elected in January 2011 indicating political and policy-making continuity although growing tension within the coalition government decreases the chances of electing a new president. The EIU expect some risk of social unrest, given the continuing fallout from the economic crisis and the internationally sanctioned austerity programme. Economic policy will be guided by the country's IMF agreement that released \$79m under the \$590m extended credit facility fund. The EIU expect growth to reach 4.5% in 2011 and 4.7% in 2012.

**SHORT-TERM COVER - N**

**COUNTRY - Poland | GOVERNMENT TYPE - Republic | POPULATION - 38.4m | 2011 POPULATION GROWTH RATE - -0.06%**



Poland is the only country in the European Union to maintain positive GDP growth throughout the global economic crisis in 2008-2009. Real GDP increased from 1.7% in 2009 to 3.8% in 2010. Inflation is expected to remain at 3%, close to the upper limit of the National Bank of Poland's target range. Long term challenges hindering economic growth include: insufficient road and rail infrastructure, an inefficient commercial court system, bureaucracy, burdensome tax system and corruption. The coalition government plans to endorse business-friendly reforms, increase workforce participation, reduce public sector spending growth, lower taxes and accelerate privatization. Recent factors limiting economic growth include: the impact of the global economic crisis on demand, the long and severe winter, the presidential plane crash and torrential rains causing floods. Poland's food exports increased by 6.5% in Q1'11 and this is expected to further increase in 2011. Inflation is expected to increase as a result of increased global food and energy prices in 2011. Economic growth is expected on the back of a strong recovery in Poland's main export partner Germany and a recovery in domestic demand.

**SHORT-TERM COVER - Y**

**COUNTRY - Romania | GOVERNMENT TYPE - Republic | POPULATION - 21.9m | 2011 POPULATION GROWTH RATE - -0.3%**



Corruption and red tape are some of the challenges faced when doing business in Romania. As a result of the global economic crisis, GDP fell more than 7% in 2009, prompting the country to seek a \$26bn emergency assistance package from the IMF, the EU, and other international lenders. Drastic austerity measures, as part of Romania's IMF-led agreement resulted in another 1.8% GDP contraction in 2010. This led to a decline in public support for the coalition government. The 2-year economic decline ended however in Q1'11 with annual GDP growth of 1.6% as demand for the country's exports mostly from Germany and France, increased. This expansion is expected to continue as long as the recovery in the country's western trading partners continues. The country did however record an annual inflation rate of 8.4% in April, the highest in the EU. The IMF disbursed the last \$1.4bn in March 2011 based on the sustainable implementation of reforms including Vat increases and cuts in public sector wages and social benefits. Roubini Global Economics expect the approaching 2012 parliamentary elections to hinder the deficit-cutting efforts and keep investors on edge. Growth in 2011 is expected to be led by growth in manufacturing and industrial exports. Romania's economy will grow by 1.5% in 2011 and by 4.4% in 2012 according to the IMF. The IMF agreed to the country's request for a new \$5.1bn Stand-by Agreement to insure the economy against possible future shocks.

**SHORT-TERM COVER - ILC**

**COUNTRY - Russian Federation | GOVERNMENT TYPE - Federation | POPULATION - 138m | 2009 POPULATION GROWTH RATE - -0.5%**



This economy is heavily reliant on commodity exports (petroleum, natural gas and steel) making it vulnerable to fluctuations in global commodity prices. The economy was one of the hardest hit by the crisis as oil prices dropped and foreign credits dried up. Long term challenges to the economy include: A declining workforce, high level of corruption and poor infrastructure. Real GDP growth increased from -7.9% in 2009 to 3.8% in 2010. The IMF expects real GDP growth to reach 4.8% in 2011 supported by a recovery in fixed investment and continued government stimulus. According to Deloitte's Global Economic Outlook, growth slowed in the first two months of 2011 as real disposable income declined (due to high inflation and an increase in payroll taxes) and unemployment increased and stated that a boost in final demand is necessary to maintain economic growth. The EIU does not expect a split between President Dmitry Medvedev and the Prime Minister Vladimir Putin, although signs have emerged of serious tensions and policy differences between them. Approval ratings for both men remain high, although they fell significantly in early 2011, as discontent with the economic situation has grown. The Economist Intelligence Unit still expects Mr Medvedev to run for a second term in early 2012.

**SHORT-TERM COVER - Y**

**COUNTRY - Slovakia | GOVERNMENT TYPE - Parliamentary democracy | POPULATION - 5.4m | 2011 POPULATION GROWTH RATE - 0.1%**



Foreign investors are attracted by Slovakia's cheap and skilled labour, low taxes, a relatively low labour code and a favourable geographical location. Consumer prices of goods and services increased by 3.9% year-on-year in April 2011 mainly due to an increase in food and non-alcoholic beverages. The government aims to reduce the fiscal deficit to 3% of GDP by 2013. This will be done by implementing various spending cuts and possible tax increases. The government has already implemented a wage freeze for public sector workers and a reduction in the operating costs of state institutions. Fiscal austerity measures in Slovakia's main export destinations are also expected to adversely affect the country's export growth. The Constitutional Court is indirectly helping the current government in reversing legislation incorporated by the Fico administration that was unfriendly to businesses. The EIU expects GDP growth to average 3.8% per year in 2011-15.

**SHORT-TERM COVER - Y**

**COUNTRY - Ukraine | GOVERNMENT TYPE - Constitutional Republic | POPULATION - 3.5m | 2011 POPULATION GROWTH RATE - 0.4%**



The government announced that it will reduce its imports of Russian natural gas in the second half of 2011 as the prices are set to increase due to political reasons. The IMF delayed the release of the third tranche of the \$15.2bn Stand-by facility due to the failure to meet the IMF's conditions on gas price rises and passing pension reforms. The increase in gas prices will place upward pressure on inflation endangering the real GDP growth outlook for 2011. The elevated inflation rate and political tension with Russia led to a decline in consumer confidence indicators in February 2011. The EIU stated that the IMF programme will guide policy during the first half of 2011. Real GDP growth is forecast to accelerate to 4.5% in 2011 from 4.2% in 2010 and average 4.3% during 2012-15. The EIU stated that the government is blocking the participation of foreign firms in Ukraine's economy, especially in the telecoms monopoly and grain exports sectors. The government has extended Russia's lease on the Crimean naval base in return for a 30% cut in gas prices. The EIU also stated that the government plans to cut spending and has reduced funds for public-sector wages.

**SHORT-TERM COVER - N**

# World markets update

*Compiled by Hloholo Pule,  
Economic Services*

The following credit classifications were recently updated. For more information on these and other countries please visit our website: [www.creditguarantee.co.za](http://www.creditguarantee.co.za) or contact our Export Department.

## How we rate them

Country classifications are based on a numeric and alphabetic basis associated with each country, with the numeric indicator showing the political rating of the country and the alphabet indicating the commercial risk. These range from 1 to 3 on the political rating with 1 being your lowest risk and 3 the highest. Likewise the A, B and C are relevant to the commercial rating – A being the lowest risk and C the highest risk.

Usually the two ratings are closely linked because the political rating of a country will impact directly on its commercial rating. Factors taken into account when assigning ratings include the following:

### Political rating

Assessing political and economic conditions and stability:

- Environment
- Economic policies
- Forex reserves – ability to generate
- Rule of law
- Access to legal system

- Banking and commercial infrastructure
- Past history as trading partner
- Utilising various sources of information such as D & B, Moody's, S+P, various publications, Internet, Berne Union, ICIA, PASA, IMF, World Bank, etc
- Negotiating country limits with reinsurers
- Country reports prepared by Credit Guarantee's economic researchers
- Credit Guarantee's country underwriting committee.

### Commercial rating

Commercial ratings are based on the financial strength of buyers in a particular country as well as their ability to repay amounts within terms afforded:

- Underwriting experience of other credit insurers on buyers in a particular market.
- Number of insolvencies / liquidations in a country.
- Access to funds for buyers in the market.
- Reliable credit information from the respective market.
- Trade references within markets.
- Global and domestic industry trends and their impact on a market.

COUNTRY	RATING	OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS
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**ETHIOPIA**



**3C**

Ethiopia has created an environment that promotes private investment in the mining sector which has the potential to play a larger role in the development of the national economy. The government is seeking investments from Indian companies in the mining sector as the African nation's natural resources remain widely unexplored. Ethiopian Mines Minister Sinkinesh Ejigu has appealed to foreign investors to invest in the mining industry, saying this would be to the mutual benefit of both sides. The minister stated that Ethiopia's mineral and geo-energy resources were yet untouched and unexplored, adding that this provides sufficient potential to accommodate the interest of investors.

Ethiopia (along with Eritrea) is predicted to be the third fastest growing economy in 2011, according to the Economist's "The World in 2011" Publication. The paper said Ethiopia is expected to grow by 10% in the coming year and rank third behind Qatar and Ghana. "A new five-year economic plan will emphasize infrastructure development, industrialization, large scale commercial farming, and small private enterprise. Donor support and worker remittances will keep the national accounts in shape and the economy will grow by 10%", said the report.

**MOROCCO**



**2B**

The EIU still expects political stability for 2011 as there are no serious challenges facing the rule of King Muhammad VI. Political parties in the country are not expected to form a strong enough power base to influence the policy-making process.


The Moroccan government is reported to add an additional \$1.8bn to subsidy funds in 2011 to cope with rising global commodity prices. This could add pressure on the budget deficit. The government heavily subsidises staples that include cooking gas, sugar and flour.

The government increased its allocation to infrastructure investment from \$9bn for the previous period to \$47bn in the 2008-2012 period. This will increase spending on roads, ports, airports and transmission grids. The country will also focus on reducing its reliance on energy imports by investing in wind power projects with an estimated cost of \$17bn. The project aims to generate 2GW from wind power and 2GW from solar power by 2020. BMI expects Morocco's construction sector to grow 5-7% annually till 2015. These projects are estimated to create a sizeable amount of job opportunities for the poor.

# COUNTRY CREDIT RATINGS


## COUNTRY RATING OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS

**MALI** **3C**




Landlocked and located in the centre of the Sahel, Mali is arid and has relatively limited resources. It has a population of over 13 million people and remains one of the world's poorest countries. Agriculture (mostly subsistence farming), livestock and fishing in the Niger River occupy 70% of the population and accounted for about 33% of GDP in 2007. Mineral resources are generally underexploited and infrastructure remains inadequate. The U.S. Millennium Challenge Corporation (MCC) is financing the 23-month construction of a new airport in Bamako, Mali. The US hopes the airport will open up the country and ease air links between Mali and other countries, improving commercial connections and reducing costs. It is currently expensive to fly to the Bamako airport; if this new project is a success it will boost the job market in Bamako to support travel to and from West Africa. The new airport is projected to serve 1.5 million passengers per year and will hopefully serve as an opportunity for the landlocked Mali to participate in the global market and boost their weak infrastructure. While services have on average accounted for 43% of the GDP in the last decade, the service sector remains comparatively less diversified than Mali's other economic sectors since it is dominated by financial services and tourism. The Central Bank of West Africa (BCEAO), acts as the central bank for Mali and 7 other West African Franc zone countries. In this sector Mali faces the challenge of diversifying credit instruments in favour of small- and medium-sized enterprises which have historically relied on informal sources for loans. Currently, micro credit institutions play a crucial role.

**NAMIBIA** **2B**



Namibia is the fourth largest uranium producer in the world. The country's total uranium output reduced by 2.8% from 5.42 tons in 2009 to 5.27 tons in 2010. Reports indicate growing interest in Namibia's uranium from France, Russia and other countries as more interest is shown in nuclear power. Two more uranium mines are reported to be under construction including one being developed by French energy giant Areva with production scheduled for 2011. Fitch Ratings upgraded Namibia's sovereign foreign currency credit outlook from stable to positive based on strong growth expected in the uranium mining sector. Fitch estimates uranium production to quadruple by 2015. The construction of the 1500 km Trans-Kalahari Railway line connecting Botswana's Mmamabula coal field with the Namibian port of Walvis Bay, is expected to start in 18 months. The project will cost approximately \$9bn with a possibility of connecting the railway line to the South African Waterberg coal field which is expected to become SA's next big coal mining area. Namibia is also expected to construct a coal terminal at Walvis Bay and is investigating the possibility of extending its rail network to Katima Mulilo on the Zambian border at an estimated cost of \$958m. The Namibian-Zambian railway could possibly replace the congested trade routes through Durban.

**GABON** **3C**



Gabon's oil industry is critical to the country's economy as it's a major source of foreign exchange, accounting for 45% of GDP, 80% of exports and 60% of budget revenues on average over the last 5 years. It is the fifth largest oil producer in Sub Sahara Africa. Analysts do expect declining oil revenues with many arguing that the oil fields have passed their peak production. The fluctuations in global prices and demand for commodities led to an economic contraction of 1.4% in 2009, the first time since 2000. The president successfully completed a visit to Asia to attract more foreign direct investment in the non-oil sector. One of these activities includes the signing of a \$1.7bn joint venture investment project by the Gabonese government with Olam International Ltd, a Singaporean multinational and leader in the agro-food processing sector. This is estimated to be the largest investment deal signed in West Africa. The project will boost development in Gabon's fertilizer and palm oil industries with a job creation capacity of approximately 21000 jobs directly and indirectly. Construction of the factory is expected to commence in April 2011. Infrastructure investment to accompany the fertilizer plant will also benefit through the construction of a 8km road, a desalination plant to produce fresh water from sea water, a power plant with a capacity of 40-50MW, the construction of a deepwater port and the possible establishment of a palm-oil refinery in Gabon. The project is estimated to generate as much as \$800m in additional revenues for Gabon annually. Gabon is expected to become Africa's largest palm oil producer.

**LIBERIA** **ZZ**



President Johnson-Sirleaf has announced her intention of running for a second term in the October 2011 elections. The United Nations peacekeeping missions will send 115 soldiers from the Philippines to Liberia to ensure stability during the elections. The IMF will disburse \$6.8m to Liberia as it completed its fifth review of the country's economic performance under the Extended Credit Facility, indicating a sign of faith in the government's economic policy. Liberia will start exploring for oil in late 2011. In January 2011 the president announced that the country will not export oil until the necessary policies are in place to ensure the oil wealth will be used for development, stability and poverty reduction in the country. Thus the management of oil wealth could depend heavily on the president securing the presidency in the October 2011 elections. In an attempt to attract foreign direct investment in the country, the government signed a deal with Dutch port giant, APM Terminals, to modernize the port of Monrovia. Over 95% of goods pass through this port, a gateway to the nation's economy.

# COUNTRY CREDIT RATINGS

## COUNTRY RATING OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS

### BRUNEI



1A

Brunei's economy will expand 3% this year and 2.6% next year, according to the IMF. The forecasts were higher than those made by the ADB in its latest Asian Development Outlook of 1.7% in 2011 and 1.8% in 2012. Trade between Brunei and China last year reached \$1.3 billion, topping a \$1 billion goal set six years ago and representing a 143% rise from 2009. During the first Brunei-Wuxi Trade and Economic Cooperation Symposium, Wang Jiabin, chief of the Economic and Commercial Office at the Embassy of China in Brunei, said the expanding bilateral trade "is a realisation of the goal set by President Hu Jintao and His Majesty in 2005. Jiabin believes Chinese businesses can help promote Brunei's tourism, ICT, food processing and oil and gas as a means to help the Sultanate's shift to diversify its economy.

### GUAM



1C

The tropical island of Guam is a keystone of American military strategy in the region. Tourism and the growing military presence on the island are the bedrock of its economy. The waters off Guam are the scene of major US navy maneuvers. The US plans to move 8,000 Marines and 10,000 dependents from the southern Japanese island of Okinawa to Guam as part of its global realignment of US forces. Activists believe the redeployment will result in a total influx of approximately 35,000 people, a number they say will overwhelm their small island, which has a population of just 168,000 people. Major companies involved in the military buildup on Guam are reaching out to the Philippines to help prepare for a rush of labour needs as construction ahead of the transfer of the Marines from Okinawa starts to ramp up. Prime contractors on Guam, including Black Construction, Watts Constructors and others, have contacted the Philippines labour supply market and are ready, if needed, to import workers to build housing and roads, overhaul infrastructure and upgrade military facilities throughout Guam in the next five years. The workforce required to build up the island before the transfer of 8,600 Marines and their 9,000 dependents in 2016 is estimated at 15,000. Guam alone is unlikely to provide all the labour, even as the Guam Contractors Association, the Guam Community College, the University of Guam and the Department of Labour seek to provide workforce training for island residents.

### HONG KONG



1A

Hong Kong has a population of  $\pm 7.1$ m. The country has a limited supply of natural resources and imports food and raw materials. The economy is very dependent on international trade and finance. The country's link with China helped the economy recover from the global economic crisis more quickly than expected. Travel restrictions between China and Hong Kong have been eased with the result of an influx of tourists from China to Hong Kong (representing the majority of visitors). Robust growth for 2011 has been experienced so far as illustrated by strong retail sales and increased exports. The government implemented a minimum wage policy that is not expected to have a significant impact on the economy but created a cause of concern regarding the level of government intervention to be expected in the future.

### MACAU



2B

The casino and tourism industry in Macau makes the biggest contribution to the economy. The casino industry is recognized as one of the world's largest gaming centers with gaming revenues surpassing Las Vegas in 2006 and the gaming-related taxes accounted for more than 70% of total government revenue. The tourism industry was boosted by China's decision to relax their travel restrictions on Chinese citizens wishing to visit Macau. The country hosted  $\pm 25$ m visitors, mostly from China in 2010, a 15% year-on-year increase. In 2010 total exports were less than \$900m while casino related activity receipts were almost \$24bn. The government is planning on tightening restrictions on the opening of new casinos while stepping up supervision of local operations in 2011. The government is also aiming to diversify economic activities. Despite the government's efforts to cool down the gambling industry, 2010 revenues still managed to grow by 57%.

### SOUTH KOREA



2A

Foreign direct investment reached a 10-year high in 2010 at \$12.8 billion—an increase of 12.1% compared with \$11.4 billion in 2009. This high figure shows that foreign investors have faith in Korea's economic fundamentals, even though global investment remained stagnant in 2010. Korea's target in 2011 is to attract \$15 billion. The government plans to focus on well-established investor relations and to attract funds from both emerging markets such as Russia and advanced economies such as the U.S. and EU. The shelling of a Korean island by North Korea appears not to have affected FDI. South Korea has secured access to more crude oil reserves after signing a deal with Abu Dhabi to develop oil fields in the United Arab Emirates (UAE). The pact with Abu Dhabi National Oil Company will give Korean National Oil Corp (KNOC) guaranteed stakes in reserves of at least one billion barrels of oil. The deal comes as countries around the world try to secure energy reserves as the price of oil surges. South Korea is reliant on imported oil. In recent years it has been trying to reduce its dependence on imported oil. This deal, which will be finalised next year, will raise the amount of South Korean-owned oil imports from 10 - 15% of consumption.

# COUNTRY CREDIT RATINGS

## COUNTRY RATING OVERVIEW AND CGIC (Credit Guarantee) EXPERIENCE & COMMENTS

### GUATEMALA



3C

Guatemala's first lady, Sandra Torres de Colom announced her intention to run for president. This enjoyed much media attention as the country's constitution prohibits close relatives of the head of state to run for president opening up the question what she would do in order to qualify as a presidential candidate. The next election will be held in September 2011.

Guatemala is considered as one of the most violent countries in the world. UN data shows that more than 95% of murders in the country are never solved with 40% drug-related. The country suffers from an increased presence of drug cartels, mostly originating from Mexico as the Mexican government is taking a tougher stance on these cartels. The country is also strategically situated to enable these organisations to secure a drug trafficking route from South America to the North American markets. In December 2010 President Colom declared a two month state of siege in the poorer Northern Province in an effort to regain control of several cities plagued by drug-related violence. The security situation in the country is perceived continue to deteriorate.

Guatemala is still in the process of negotiating a Stand-by Arrangement with the IMF worth an estimated \$300m. This is needed to boost foreign business confidence in the country especially during the political uncertainty surrounding the 2011 presidential elections.

### HONDURAS



3C

Honduras is a lower middle-income country with a huge wealth gap and known for its military rule. It is one of the most violent countries in Latin America making the country very dependent on international grants and loans. The total population is estimated at 8.1m. The legal and regulatory environment is considered weak, with high levels of corruption.

Social unrest in the country is increasing. In February 2011 Honduras Weekly reported protests against President Lobo's economic reforms and demanded an end to the repression and the return of former president Manuel Zelaya. Farmers repudiated a court ruling declaring unconstitutional a decree approved by the former government allowing peasants to farm land left unused. These protests are expected to intensify and have focused on rejecting privatization policies in education, militarisation in northern Honduras and the rising cost of living.

Risks to the country's economic growth outlook as identified by the EIU include subsidies to loss-making state-run entities that increase the fiscal burden. The government's efforts to improve public finances are complicated by structurally weak tax collections despite recent reforms to improve tax administration and reduce tax evasion, as well as the legacy of huge salary increases granted by the previous government, which has bloated the public payroll. Union opposition to reduce the wage bill in the 2011 negotiations is expected to increase tension.

### PUERTO RICO



1B

Puerto Rico has been in recession for the past four years. While the economy in Puerto Rico continues to show a mixed performance overall, recovery in the US may have a positive impact on the island. The manufacturing and the services sector (of which tourism is an important component), may be the largest beneficiaries of higher growth in the US economy. The biggest long-term economic challenge for Puerto Rico continues to be its inability to encourage private sector employment growth. For decades the public sector became the employer of last resort, mitigating the inability of the private sector to generate the jobs demanded by a relatively young and growing population.

This imbalance enlarged the government payroll and set the commonwealth on an unsustainable path of recurring budget deficits. Any reduction in the government's employment levels may result in high long-term unemployment rates (which are currently at a high 15.8%), particularly if private employment growth remains low.

Since the 1990s many Puerto Ricans living in the US have returned to the island because of improved living conditions. The government also places high emphasis on education which explains the high literacy rate of 90%.

### PANAMA



3C

Strong economic performance has not translated into broadly shared prosperity as Panama has the second worst income distribution in Latin America. About 30% of the population lives in poverty. From 2006 to 2010 poverty was reduced by 10% while unemployment dropped from 12% to 6% of the labour force.

President Martinelli is confident that since the economy grew 7% in 2010, 2011 will be even better and "Panama will be one of the most dynamic economies in Latin America"; he expects growth rates between 8 and 9%.

The expansion of the Panama Canal will cost \$5.3 billion; the project started in 2009 and has remained on schedule and on budget and will be completed by 2014. The United States and China are the top users of the Canal.

Construction of the first metro line in Panama City in the amount of \$1.5 billion and the construction of a copper mine for a total investment of \$4.3 billion will start in 2011. Hotel investment in 2010-2012 is estimated by the Panamanian Association of Hotels (APATEL) at \$2.4 billion. The government plans to make public investments amounting to \$13.6 billion during the period 2010-2014 with the electricity sector receiving \$4.4 billion over the next six years. Panama's economy is growing very strongly despite the fact that large investment projects have not fully started.

### COLOMBIA



3C

It is the fourth largest oil producer in Latin America. Corruption remains a deterrent to doing business in Colombia. The government did however manage to increase foreign direct investment into the country through improved security and business-friendly investment rules.

Colombia's economy is considered to be among the strongest growing economies in Latin America with the IMF forecasting a 4.6% real GDP growth rate for 2011. Private consumption and the hydrocarbon and mining sectors are expected to lead the country's economic recovery. This combined with the possible ratification of the US-Colombian Free Trade Agreement is expected to boost economic growth.

In our March *Review* 2011 we highlighted an uncertain global outlook and a stabilizing local cycle. While that picture still broadly applies, indicating guarded optimism despite numerous business challenges, we caution that the medium term outlook looks set to be dominated by lower trend growth and upward cost pressures. In the short-term, a current soft spot will hopefully prove transient although further shocks – geo-political or financial in nature – could derail even these modest prospects.

### Global cycle cooling

Economic activity has cooled of late and the OECD sees industrialized country output (GDP) expanding 2.3% this year from 2.9% last year before recovering to 2.8% next year. “The global recovery is becoming self-sustained and more broad based. The recovery is taking place at different speeds between, advanced economies and emerging economies, but also within the first group of countries. Unemployment remains high across most of the OECD countries. In most, headline inflation has risen strongly, and expectations are also drifting up; however underlying inflation seems likely to edge up only slowly. Vibrant domestic demand growth, negative supply shocks and strong capital inflows in non-OECD economies are generating inflationary pressures prompting policy restraint that could slow the recovery” (OECD May Economic Outlook 89).

Although the JPMorgan Global Manufacturing PMI (Purchasing Managers Index) recorded its twenty-third consecutive month of expansion (above the neutral mark of 50) in May 2011 at 52.9, this was the lowest level since September 2010 and represented a third successive monthly fall. “Rates of expansion in output and new orders were either at, or close to, the weakest since the recovery began in mid-2009, and growth of international trade flows slowed. The trend in employment held up comparatively well, with solid job creation recorded, but further firming of the labor market will be restricted if the trends in output and new orders fail to regain momentum” (David Hensley, director JPMorgan).

Both of the above offer sobering outlooks. Further, what will happen when the US’s quantitative easing (stimulus

Compiled by  
**LUKE DOIG**  
Senior economist,  
Credit Guarantee



programme) ends in June? Will the flood of dollars that caused a weak USD and higher commodity prices suddenly reverse? Will this be exacerbated by a weak Euro as that region battles with sovereign debt crises? Higher global liquidity is giving rise to inflationary pressures; China, India, Brazil and Russia have all hiked interest rates in response and the demand for commodities now appears to be waning. Or do supply bottlenecks indicate a stronger underlying demand than is universally accepted?

### Domestic credit extension holding up

Domestic credit extension to the private sector expanded at 6.2% year-on-year (y-o-y) in April from 5.2% in March. Credit extended to corporates has improved over the past quarter, with y-o-y growth of 5.5% in April from 3.1% a month earlier and up from January’s 2.4%. Credit extended to households has stabilized around the 7% y-o-y growth level. As previously mentioned, the extent to which personal balance sheets will improve will in turn lead to greater credit demand from households which should ultimately support consumer spending, and in turn business activity. The shape of personal finances is well

documented in the piece on consumer and retail spending documented on p5 of this *Review*. Indeed, the gist of that article is that lower debt servicing costs have supported consumer spending but that the winds are now from the front. Quite simply further growth in overall demand requires that additional jobs be created and that in turn depends crucially on business sentiment and confidence.

After advancing to the highest level in over three years in Q1’11, BER/RMB’s Business Confidence Index declined by 7 points from 55 to 48 in Q2’11, reflecting that more than half of respondents were dissatisfied with prevailing business conditions. This however remains more than double the index level of 23 recorded in Q3’09. The retail index fell from 58 to 47 over the same period, while that for wholesale recorded a fall to 47 from 65. New vehicle dealers also eased from 81 to 76 and this lower confidence in the trade sectors may reflect a weakening in the ability of consumers to spend. Manufacturing tracked sideways at a level of 51 while that of building edged up to 21 from 18, still reflecting an industry with scarce work and intense tendering.

### Industrial output softens

The Kagiso Purchasing Managers Index softened further in May to 55.1 index points (seasonally adjusted) from 56.4 a month earlier and the recent peak of 57.2 seen in March 2011. Heartening is that new sales orders remained constant at 61 from a month earlier while expected business conditions jumped to 66.7 from 58.1 in April 2011. This cooling trend indicates that after a robust Q1’11 in which manufacturing expanded at 14.5% (saar) and helped overall GDP to 4.8% from 4.5% in Q4’10, growth is expected to moderate in the quarters ahead.

Weaker demand from abroad has also contributed to this moderation in industrial output. Consequently exports tapered off to R60.2bn in April from R51.7bn in March, resulting in a trade deficit of R2.45bn. Jan – April 2011 exports are nonetheless 21.9% higher at R208.1bn from the same period a year earlier, leaving an accumulated trade deficit of R7.5bn after imports expanded at 18% over the same period to R215.6bn.

## Defaults improving off a high base

Although improving, defaults both globally and domestically have come off high bases. The Atradius/KMV Credit Monitor shows that expected default frequencies in Q1'11 for the countries monitored continued their moderating trend. "In March 2011, France, Germany, and the UK recorded levels lower than in August 2008, i.e. before the credit crisis began, while Belgium and the Netherlands are also nearing that level. Only the US and Italy still recorded EDF figures higher than in the summer of 2008".

The table below reveals that almost all domestic debt indicators are moving in the right direction, apart from that relating to liquidations which saw a 2.1% increase in the first four months of 2011 over the same period last year. Credit Guarantee's leading indicator relating to threatening losses has seen an almost 18% fall in the number and a 28.2% fall in the value of expected defaults in the first five months of this year and a similar fall in the value of claims paid.

		2010	2011	Change
Default judgments - businesses	March (number)	6,991	4,790	-31.5%
	YTD March (no)	15,431	12,218	-20.8%
	March (value, Rm)	130.3	117.2	-10.0%
	YTD March (value, Rm)	300.5	274.0	- 8.8%
Liquidations	April (no)	358	267	-25.4%
	YTD April (no)	1,302	1,329	2.1%
Insolvencies	March (no)	360	250	-30.6%
	YTD March (no)	836	581	-30.5%

Source: Stats SA, own calculations.

## A tight balancing act

The SA Reserve Bank's most recent monetary policy statement revealed that they expected annual consumer inflation to average 5.1% this year and 6% next year, 0.4% and 0.3% higher respectively than previously expected. They are cognisant that much of the underlying pressures are cost push in nature but that they had the potential to result in more generalised inflation (higher prices due to second round effects). On that basis, higher interest rates can be expected, perhaps even as early as at the July MPC meeting. Thereafter, the extent of the tightening cycle will depend crucially on the second round effects mentioned. To this end inflation expectations and salary increases way in excess of current inflation trends risks giving rise to accumulative hikes of more than 2%. This however will have to be counterbalanced by the fragile employment outlook; burdening business with higher working capital costs may well deter job creation. We also expect a GDP outcome this year of almost 4%, somewhat higher than most consensus forecasts. Once again the outlook for 2012 growth is clouded by potential monetary policy action, even if potential output growth of 4% can be achieved, the jobs challenge will remain.



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Visit our website at [www.creditguarantee.co.za](http://www.creditguarantee.co.za)  
E-mail: [#info@cgic.co.za](mailto:#info@cgic.co.za)

### Gauteng: Telephone 011 889 7000

Credit Guarantee House, 31 Dover Street, Randburg  
P O Box 125, Randburg, 2125  
Fax 011 886 1027 or 011 886 5715  
Business development consultants: Nazel Veldtman,  
Malcolm Kourie, Llewellyn Paulsen  
Service consultants: Jacky Mzobe, Tracey Dansie,

### Western Cape: Telephone 021 421 7830

No 1 Thibault Square, 1 Long St, Cape Town  
P O Box 6018, Roggebaai, 8012  
Fax 021 419 7586  
Business development consultants:  
Claire Marx Willie van den Berg  
Service consultant: Danie van Niekerk  
Business investigator: Glenda Inskip

### Eastern Cape: Telephone 041 363 4024

First Floor, Mutual Place, cnr Cape Rd & Langenhoven Drive,  
Greenacres, Port Elizabeth  
P O Box 27154, Greenacres, 6057  
Fax 041 363 3750  
Client services: Nici Large  
Business investigator: Brenda McEwan

### Kwazulu/Natal: Telephone 031 265 0300

Suite 7, No 4 The Crescent, Westway Office Park, Westville  
P O Box 2756, Westway Office Park, 3635  
Fax 031 265 0323  
Client services: Lorraine Abbott  
Business investigator: Andrew Reed

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For subscriptions and information, please contact Vicki Sokolich at tel 011 889 7281, fax 011 686 9581 or e-mail at [vickis@cgic.co.za](mailto:vickis@cgic.co.za).

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2 Hermitage Terrace, Richmond, Johannesburg  
Private Bag X20, Auckland Park, 2006  
Tel: 011 726 3081/2 • Fax: 011 726 3017  
e-mail: [magazines@malnormags.co.za](mailto:magazines@malnormags.co.za) • Website: [www.malnormags.co.za](http://www.malnormags.co.za)



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